

Opening Statement by Ranking Member Spencer Bachus at the Hearing on "Monetary Policy and the State of the Economy"

July 18, 2007

Mr. Chairman, thank you for holding this important hearing, and Chairman Bernanke, thank you for your report and your continued wise stewardship of our nation's monetary policy.

As I said to you when you last appeared before the Committee in February, one's perception of the strength of the economy depends upon your philosophy and point of view. But as I see it, it is hard to argue with the following facts:

Economic growth is robust, as illustrated by the 132,000 new jobs created in June, and the 8.2 million new jobs created since August 2003.

- Unemployment remains low.
- Despite higher oil prices, inflation is under control, falling from 2.4 percent in February 2007 to 1.9 percent in May.
- While it has slowed recently, productivity growth has averaged 2.8 percent since 2001 - well above the average productivity growth experienced in the 1970s, 1980s, and 1990s.
- Real wages have shown a healthy increase over the past year, and are supporting continued strong consumer spending even in the face of declines in real estate values in many areas of the country.
- The stock market continues to deliver superior returns to investors.

This economic success story is a result of sound economic policies pursued by this Republican administration. They are also a testament to the hard work and innovation of businesses and workers who comprise the American economy. Chairman Bernanke, you deserve a great deal of credit for the performance of the economy as well - instead of micro-managing monetary policy, you have held it absolutely steady for a year now, balancing the tension between modest upside inflation risk and modestly slower growth.

No one has summarized your tenure at the Fed better than The New York Times. In a June 25th story, the Times asked, "Could an Ivy League academic like this ever have Street credibility? (T)he answer is clear: yes, yes, and yes again." The same article also observed: "(t)he economy today is pretty much exactly where Mr. Bernanke hoped it would be one year ago. Economic growth has slowed slightly, gradually reducing inflationary pressures. And while job creation has slowed, unemployment remains low, at 4.5 percent."

Before I conclude my remarks, Chairman Bernanke, I would like to bring to your attention two topics of particular interest to the members of this Committee.

First, as you know, Chairman Frank and I are both concerned by the recent turmoil in the subprime lending market. Just last week, Representatives Gillmor, Pryce, Miller, LaTourette and I introduced legislation on this subject. Developing a consensus solution to this problem, while determining the Fed's proper role in regulating the mortgage industry, are priorities for Members on both sides of the aisle. The Committee would benefit from your thoughts on the current state of the subprime mortgage market; its potential impact on the larger economy; and the status of the Federal Reserve's ongoing review of mortgage lending practices pursuant to its authority under HOEPA.

Second, any discussion of monetary policy would be incomplete without discussing China. China's unwillingness to embrace market reforms and currency liberalization policies has exacerbated the trade deficit between our two countries, which ballooned to over \$200 billion in 2006. As you may know, I have proposed that the United States and China negotiate a Financial Services Agreement similar to the one we reached with Japan in 1995, as a complement to Secretary Paulson's Strategic Economic Dialogue and as a mechanism to speed the opening up of the Chinese economy to American goods and services. Therefore, I'd be interested in your thoughts on the U.S. - China trade relationship and strategies to encourage the Chinese to open their markets, particularly to U.S. providers of financial services.

Chairman Bernanke, the Members of this Committee-Republican and Democrat alike-respect your experience, judgment, and obvious commitment to keeping America's economy strong and competitive. We appreciate your being here and look forward to hearing your comments.

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